

VZCZCXRO3822
PP RUEHBC RUEHDE RUEHIHL RUEHKUK
DE RUEHGB #3653 3231439
ZNY CCCCC ZZH
P 181439Z NOV 08
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 0451
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

C O N F I D E N T I A L BAGHDAD 003653

SIPDIS

TREASURY FOR DEPUTY SECRETARY KIMMITT

E.O. 12958: DECL: 11/17/2018
TAGS: [PREL](#) [ECON](#) [EFIN](#) [ENRG](#) [IZ](#)
SUBJECT: D/S KIMMITT AND MINISTER SHAHRISTANI REVIEW
PROGRESS AT THE MINISTRY OF OIL

Classified By: EMIN - Marc Wall Reason E.O. 12958 1.5 (b,d)

11. (SBU) Summary: On November 1, 2008, Treasury Deputy Secretary Robert Kimmitt, accompanied by Deputy Assistant Secretary Andrew Baukol and Treasury Attache Ged Smith, met with Hussain al-Shahristani, Iraq's Minister of Oil at his office in the International Zone. A wide range of topics were discussed, including Letters of Credit, recent bidding for twenty-year technical service contracts, and Ministry of Oil progress in executing its capital budget. End Summary.

Opening letters of credit to private banks

12. (SBU) D/S Kimmitt raised the issue of letters of credit (L/Cs), noting that private banks would likely be able to process them more efficiently and reduce the number of L/Cs returned to the Ministry unexecuted. As the Ministry of Oil's (MoO) capital program was critically dependent on imported goods, Kimmitt solicited Shahristani's comments on the idea to allow private banks to underwrite L/Cs based on a sliding scale in proportion to their capital. Kimmitt suggested that the L/C issuance process in Iraq needed efficiency gains that foreign investors could bring, but that investors would come to Iraq only if they could have a larger share of the market. Shahristani was enthusiastic regarding such a proposition, noting that foreign banks could open branches in Iraq on their own or through a joint venture. He wondered, however, whether Iraqi collateral held by private banks to secure L/Cs would be subject to attachment risk.

Minister upbeat on technical service contracts

13. (SBU) D/S Kimmitt asked Shahristani about the bidding process conducted in London for technical service contracts. Kimmitt noted that he had participated in an investment conference that day, and that future Iraqi investment conferences would benefit from progress on the contracts and hydrocarbons legislation, as well as on provincial elections and the Status of Forces Agreement. Shahristani was enthusiastic about his London outreach, saying that 35 major companies, coming from around the globe (including the U.S. and Britain), had participated. He claimed that there was satisfaction with the data packages and the model contract MoO lawyers had drafted. Shahristani said that there would be a second round by year-end where agreements would be struck for additional fields, and this process would continue once a quarter in 2009 until all 78 discovered fields had been offered. (Note: Independent feedback from participants was that cost of participating in the bid round was excessive and the quality of the data sub-standard.)

Minister satisfied with capital expenditure program

¶4. (SBU) D/S Kimmitt inquired about Shahrستاني's progress in the 2008 capital spending program. Shahrستاني responded that he had committed over 80 percent of his capital program for 2008, and that he anticipated that he would fully expend his resources by year-end. He acknowledged that his figures include unexecuted L/Cs and does not take into account carry-over funds from 2007. (Note: Finance Ministry and Planning Ministry data suggest much lower rates of budget execution.) Kimmitt asked about the 2.0 million barrel per day export level that Shahrستاني had agreed on in the IMF negotiations in Jordan the previous week. Kimmitt noted that this seemed to be at odds with representations that more crude would be supplied to the domestic market. Shahrستاني responded that there would be only a marginal need for more crude for domestic use. Specifically, he noted that almost all the turbines purchased could burn heavy fuel oil, something Iraq has in surplus. In addition, the recently signed Shell contract would provide flared gas to power new electrical plants in ¶2009. Finally, MoO engineers have fixed damaged pipelines from Bayji to Baghdad, which will allow gas to be delivered to power plants in Baghdad.

CROCKER